

Financial Statements

**NORTH SHADE TOWNSHIP
Gratiot County, Michigan**

March 31, 2004



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

29-1100

RECEIVED
DEPT. OF TREASURY

DEC 27 2004

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name NORTH SHADE TOWNSHIP	LOCAL AUDIT & FINANCE DIV.	County GRATIOT
Audit Date 3/31/04	Opinion Date 11/8/04	Date Accountant Report Submitted to State: 12/5/04		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name)

ROSLUND, PRESTAGE AND COMPANY, PC

Street Address

308 GRATIOT AVENUE

City

ALMA

State

MI

ZIP

48801

Accountant Signature

Michael Prestage & Company P.C.

Date

12/22/04

North Shade Township
Financial Statements
March 31, 2004

Table Of Contents

	Page Number
Board Of Trustees	
Auditor's Report	
Financial Section	
Combined Balance Sheet - All Fund Types	1
Statement Of Revenues, Expenditures, And Changes In Fund Balance - Budget And Actual – General Fund	2
Notes To Financial Statements	3 - 9
Supplemental Information	
General Fund Statement Of Expenditures	10 - 11
Agency Fund Tax Collection Agency Fund Statement Of Changes In Assets And Liabilities	12
Reports Required By Government Auditing Standards	13 - 14

North Shade Township
Board Of Trustees
March 31, 2004

John Friesen

Supervisor

Dale Simmet

Clerk

Scott Friesen

Treasurer

Kim Duflo

Trustee

John Peck

Trustee



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
North Shade Township
Gratiot County, Michigan

We have audited the accompanying general-purpose financial statements of North Shade Township, Gratiot County, Michigan, as of and for the year ended March 31, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of North Shade Township management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general purpose financial statements referred to above do not include the general fixed assets account group, which should be included to conform with generally accepted accounting principles. The Township has not maintained a record of its general fixed assets.

In our opinion, except for the effect on the financial statements of the omission described in the preceding paragraph, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of North Shade Township, as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 8, 2004, on our consideration of North Shade Township's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of North Shade Township, Gratiot County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general-purpose financial statements taken as a whole.

Roslund, Prestage & Company, P.C.

ROSLUND, PRESTAGE & COMPANY, P.C.
Certified Public Accountants

November 8, 2004

North Shade Township
Combined Balance Sheet - All Fund Types
March 31, 2004

	Governmental Fund Types	Fiduciary Fund Types	Total (Memorandum Only)
	General	Trust and Agency	
ASSETS			
Cash And Investments	\$40,549	\$101	\$40,650
Property Taxes Receivable	2,210	-	2,210
Due From Other Funds	101	-	101
Total Assets	<u>\$42,860</u>	<u>\$101</u>	<u>\$42,961</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Due To Other Funds	-	\$101	\$101
Total Liabilities	<u>-</u>	<u>101</u>	<u>101</u>
Fund Equity			
Fund Balance - Unreserved	\$42,860	-	42,860
Total Fund Equity	<u>42,860</u>	<u>-</u>	<u>42,860</u>
Total Liabilities And Fund Equity	<u>\$42,860</u>	<u>\$101</u>	<u>\$42,961</u>

See Accompanying Notes To Financial Statements

North Shade Township
Statement Of Revenues, Expenditures, And Changes In Fund Balance -
Budget And Actual - General Fund
Year Ended March 31, 2004

	General Fund		
	Budget	Actual	Variance
Revenues			
Taxes and Penalties	\$36,000	\$38,720	\$2,720
Administrative Fee	4,200	4,880	680
State Grants	47,000	48,668	1,668
Interest and Rentals	200	315	115
Other Revenues	1,750	3,608	1,858
Total Revenues	89,150	96,191	7,041
Expenditures			
General Government			
Legislative			
Township Board	6,100	4,637	1,463
Chief Executive			
Supervisor	4,500	4,000	500
Financial and Tax Administration			
Clerk	12,650	7,927	4,723
Treasurer	6,400	5,723	677
Board Of Review	540	540	-
Assessor	4,859	4,522	337
Equalization	2,000	1,665	335
Other General Government			
Elections	2,500	-	2,500
Township Hall And Grounds	13,000	400	12,600
Public Safety			
Fire	14,500	9,850	4,650
Community and Economic Development			
Zoning	1,500	819	681
Public Works			
Drain At Large	6,500	6,405	95
Road Maintenance	37,631	27,081	10,550
Total Expenditures	112,680	73,569	39,111
Excess Of Revenues Over (Under) Expenditures	(23,530)	22,622	46,152
Fund Balance - April 1, 2003	20,238	20,238	-
Fund Balance - March 31, 2004	(\$3,292)	\$42,860	\$46,152

See Accompanying Notes To Financial Statements

North Shade Township
Notes To Financial Statements
March 31, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

North Shade Township was organized within Gratiot County and covers an area of approximately 36 square miles. The Township operates under an elected board of trustees (5 members) and provides services to its more than 1,000 residents in many areas including road maintenance and fire protection.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity" these financial statements of North Shade Township contain all of the funds and account groups that are controlled by or dependent on the Township's executive or legislative branches. Control by or dependence on the Township was determined on the basis of appointment of governing authority, budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the Township, obligations of the Township to finance any deficits that may occur, receipts of significant subsidies from the Township, disposition of surplus funds, scope of public services, and whether the financial statements would be misleading if data were not included.

Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Township are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum numbers of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The Township has the following fund types:

GOVERNMENTAL FUNDS

Governmental funds are used to account for the Township's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period.

North Shade Township
Notes To Financial Statements
March 31, 2004

The Township considers all revenues available if they are collected within 60 days after year-end. Property tax revenue is recognized in accordance with the Michigan Committee on Governmental Accounting and Auditing Statement No. 3, "Revenue Recognition of Property Taxes".

Expenditures are recorded when the related fund liability is incurred except expenditures are not normally divided between years by the recording of prepaid expenses, and payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.

Property taxes, interest, licenses, and special assessments are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the Township and are recognized as revenue at that time.

Entitlement and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental funds of the Township include the following fund types:

General Fund - The general fund is the primary operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

FIDUCIARY FUNDS

Fiduciary funds account for assets held by the Township in a trustee capacity or as an agent on behalf of individuals, private organizations, other governments, or other funds. Fiduciary funds of the Township include the following fund types:

Agency Fund - Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Township has one agency fund, Current Tax Collection Fund.

North Shade Township
Notes To Financial Statements
March 31, 2004

Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "interfund receivables/payables." All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Fixed Assets

Fixed assets used in the general operations of the Township are recorded as expenditures when purchased and are accounted for in the general fixed asset account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. No depreciation has been provided on general fixed assets. Infrastructure assets, including roads, bridges, sewers, drains, curbs, and gutters are not capitalized.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's lives are not included in the general fixed asset account group.

The Township has not maintained a record of general fixed assets and, therefore, it is not presented in this report.

Memorandum Only – Total Columns

Total columns on the general purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

North Shade Township
Notes To Financial Statements
March 31, 2004

Property Taxes

Taxes are levied each December 1st based on the state equalized valuation of the property located in the Township as of the preceding December 31st. The Township bills and collects its own property taxes. Collection of taxes and remittance of them to various entities are accounted for in the Township's agency fund. Township property tax revenues are recognized when levied to the extent that they result in current receivables. These taxes are due on February 14th with a final collection date of February 28th. The County purchases any uncollected real property taxes returned delinquent.

The 2003 state equalized value for the Township amounted to \$19,460,970, which ad valorem taxes levied for Township operations consisted of .9978 mills or \$19,418 for general operations and .9916 mills or \$19,297 for road services.

Combining Statements

The Township has only one fiduciary fund, the tax collection agency fund. Accordingly, no combining financial statements are necessary for that fund type.

Budgets And Budgetary Accounting

Budgets are adopted by the Township for the general fund and special revenues funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Township for these budgetary funds were adopted to the function level. During the year ended March 31, 2004, the Township incurred expenditures in excess of the amounts appropriated as shown on page 2 of this report.

NOTE 3. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

Deposits And Investments

Deposits are carried at cost. Deposits are in financial institutions in the name of the Township. Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; bankers acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township's deposits and investments are in accordance with statutory authority.

The carrying amount of the Township's deposits with financial institutions was \$40,650 and the bank balance was \$40,655. The entire bank balance was insured (FDIC).

The Township's cash and investments consist of checking and money market accounts.

North Shade Township
Notes To Financial Statements
March 31, 2004

Due From/To Other Funds

The amount of "Due From/To Other Funds" represents property taxes collected and held in the Agency fund that are due to the General fund.

Pension Plan

The Township has established a pension plan for all eligible employees under section 401(a) of the Internal Revenue Code. The Plan is intended to satisfy the requirements of the Internal Revenue Code which apply to townships and other governmental entities. Where not governed by such law, by regulations promulgated there under, or by other federal laws, the Plan shall be administered and construed in accordance with Michigan law.

The name of the plan is known as the Manulife Financial Defined Contribution Pension Plan for Government Employees ("Manulife Plan").

All members of the Township Board, the Deputy Clerk and the Deputy Treasurer and Zoning Officer are eligible. There are no age or service requirements.

Normal retirement age is 65 or, if later, completion of 10 years of participation in the plan. Benefits attributable to employer contributions shall be 100% vested upon a participant's death, disability, or normal retirement, or upon the termination of the Plan. Upon termination of a participant's service, for other than the above, such benefits shall vest 100% immediately. Early retirement age is 55 and any benefits will vest 100% upon early retirement.

The current year covered payroll was estimated to be \$15,755 and the total payroll for the current year is \$16,755. Original contributions are based on the estimated covered payroll and are subsequently adjusted based on actual covered payroll.

Contributions to the plan during the fiscal year ended March 31, 2004 were \$2,520, which consisted of \$1,260 contributed by the participants and \$1,260 contributed by the Township.

A mandatory after-tax contribution of 7.5% is required for each plan participant. Additional after-tax contributions ranging from 1% - 10% of compensation are allowed.

North Shade Township
Notes To Financial Statements
March 31, 2004

Risk Management

The Township is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Township carries commercial insurance.

Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

Building Inspection Department Fund

Public Act 245 of 1999 was signed on December 28, 1999 and took immediate effect. This act amends the State Construction Code Act (Public Act 230 of 1972) and requires, among other things, the establishment of a special revenue fund to account for the revenues and expenditures associated with issuing building permits, examining plans and specifications, inspecting construction before issuing permits, and issuing certificates of use and occupancy.

The Township has not established this fund because the fee structure is not intended to recover the full cost and the Township has the ability to track the full cost and revenues of this activity without creating a separate fund.

North Shade Township
General Fund
Statement Of Expenditures
Year Ended March 31, 2004

Legislative	
Township Board	
Salaries And Wages	\$2,325
Dues	384
Pension Contribution	<u>1,928</u>
Total Legislative	<u>4,637</u>
Chief Executive	
Supervisor	
Salaries And Wages	<u>4,000</u>
Financial and Tax Administration	
Clerk	
Salaries And Wages	4,900
Contracted Services	335
Supplies	214
Insurance And Bonds	<u>2,478</u>
Total Clerk	<u>7,927</u>
Treasurer	
Salaries And Wages	4,900
Supplies	<u>823</u>
Total Treasurer	<u>5,723</u>
Board Of Review	
Salaries And Wages	<u>540</u>
Assessor	
Salaries And Wages	4,000
Supplies	<u>522</u>
Total Assessor	<u>4,522</u>
Equalization	<u>1,665</u>
Total Financial and Tax Administration	<u>20,377</u>
Other General Government	
Township Hall And Grounds	
Supplies	<u>400</u>

See Accompanying Notes To Financial Statements

North Shade Township
General Fund
Statement Of Expenditures (Continued)
Year Ended March 31, 2004

Public Safety	
Fire Department	
Contracted Services	<u>9,850</u>
Community and Economic Development	
Zoning	
Salaries And Wages	<u>819</u>
Public Works	
Drain At Large	6,405
Road Maintenance	<u>27,081</u>
Total Public Works	<u>33,486</u>
Total Expenditures	<u><u>\$73,569</u></u>

See Accompanying Notes To Financial Statements

North Shade Township
Tax Collection Agency Fund
Statement Of Changes In
Assets And Liabilities
Year Ended March 31, 2004

	Balance April 1, 2003	Additions	Deletions	Balance March 31, 2004
ASSETS				
Cash	\$3	\$470,698	\$470,600	\$101
Total Assets	<u>\$3</u>	<u>\$470,698</u>	<u>\$470,600</u>	<u>\$101</u>
LIABILITIES				
Due To General Fund	\$3	\$25,555	\$25,457	\$101
Due To Other Governmental Units	<u>-</u>	<u>445,143</u>	<u>445,143</u>	<u>-</u>
Total Liabilities	<u>\$3</u>	<u>\$470,698</u>	<u>\$470,600</u>	<u>\$101</u>

See Accompanying Notes To Financial Statements



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To The Board Of Trustees
North Shade Township
Gratiot County, Michigan

We have audited the general-purpose financial statements of North Shade Township as of and for the year ended March 31, 2004, and have issued our report thereon dated November 8, 2004, which was qualified because the general-purpose financial statements omit the General Fixed Asset Account Group. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether North Shade Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Shade Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of North Shade Township in a separate letter dated November 8, 2004.

This report is intended for the information of management and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

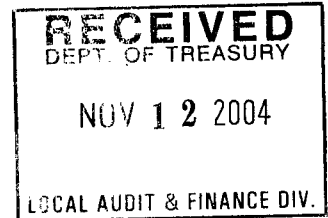
Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 8, 2004



MANAGEMENT LETTER



To The Board Of Trustees
North Shade Township
Gratiot County, Michigan

In planning and performing our audit of the financial statements for North Shade Township for the fiscal year ended March 31, 2004, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated November 8, 2004 on the financial statements of North Shade Township.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.

ROSLUND, PRESTAGE AND COMPANY, P.C.
Certified Public Accountants

November 8, 2004

COUNCIL OVERSIGHT

The size of the Township's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Therefore, we recommend that the members of the Board of Trustees maintain a level of involvement in the financial affairs of the organization to provide appropriate oversight and independent review functions.

GASB No. 34

On June 10, 1999, the GASB unanimously approved the issuance of GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This Statement will have a significant impact on the way state and local governments report their finances to the public.

GASB No. 34 establishes new requirements for the annual financial reports of state and local governments. The basic financial statements and required supplementary information will include Management's Discussion and Analysis (MD&A). The MD&A is a narrative report prepared in an easy-to-read format by the financial manager. It should introduce the basic financial statements; provide an analytical over-view of the financial activities for the year based on the financial manager's knowledge of the transactions, events, and conditions reflected in the financial report and the fiscal policies that control the government's operations. Use of charts, tables, and graphs is encouraged.

In addition to the MD&A, full accrual accounting will also be required, which will incorporate capitalization of fixed assets, depreciation, and long-term liabilities into the financial statements. A substantial amount of time by management may be required to implement GASB No. 34.

The requirements of this GASB Statement are effective in three phases based on the total annual revenues of the government. For your Township, the effective implementation date is fiscal years beginning April 1, 2004 and will be reflected in the financial statements to be issued for the March 31, 2006 audit.

We would be pleased to assist you with implementing GASB No. 34.

North Shade Township
Management Letter

BUDGET

Although the budget is formally adopted, the minutes do not specifically refer to which budget was adopted. We recommend that the minutes refer to the total budgeted revenues, total budgeted expenditures, and budgeted ending fund balance that is included in the adopted budget as well as the date of the budget document presented for adoption.

During our review of the budget we observed that the beginning cash balance was included in the "revenues" as a budgeted revenue item for the current year. The beginning cash balance should not be considered a current year "revenue" in the budget but rather as part of the fund balance at the beginning of the year.

The provisions of P.A. 621 require local units of government to adopt a balanced budget for the required funds which, for North Shade Township, would be the General Fund. A "balanced" budget means that the ending fund balance (as budgeted) must not be negative. During our review of the budget we found that it reflected a negative ending fund balance.

We recommend that the board adopt budgets for the required funds in a format similar to that shown in the audit report, include the beginning and ending fund balances, and avoid negative ending fund balances.

INDEPENDENT REVIEW AND APPROVAL OF BANK RECONCILIATIONS

Currently a person independent of the bank reconciliation function does not review these reconciliations.

We recommend that one or more members of the Township Board, other than the preparer, review all completed bank reconciliations on a monthly basis. This review should include scanning the reconciling items for any unusual items and tracing the reconciled balance to the financial statements. At the same time we also recommend that the reviewer inspect the bank statements and review them for any unusual transactions. The review of the bank statement will ensure that unusual items are investigated on a timely basis.

The reviewer(s) should then initial and date the reconciliation to indicate the review was completed.

North Shade Township
Management Letter

CHANGE BANK CUTOFF DATE

The Township may want to consider asking the bank to change the bank cutoff date for the Township's bank accounts to coincide with the end of its accounting period. At present, the bank cutoff date is the 5th, 26th, and 29th of the month. Changing the date to the last day of the month would aid in the preparation of the monthly bank reconciliation.

GENERAL LEDGER

Currently the general ledger for the Township is maintained manually and involves a significant amount of manual posting and mathematical calculations. During our audit we observed that the general ledger was not maintained for the cash accounts or beginning fund balance and not all account activity was posted correctly.

We strongly recommend that all activity be posted to the general ledger on a monthly basis and that the general ledger is balanced before posting the next month's activity. We also recommend that management consider computerizing the general ledger. This will reduce the number of errors, reduce the time involved in posting and extending the account activity, and help to provide a more timely and accurate ledger in which to prepare financial statements.

CANCELLATION OF INVOICES

During our review of disbursements made during the year it was noted that not all invoices are cancelled once paid.

We recommend that once an invoice is paid, the invoice be cancelled either by noting the check/voucher number used to pay the item or simply writing "paid" on the invoice. This procedure will help to prevent double payment of expenses and/or possible misappropriation of funds.